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ABSTRACT

State-sponsored, tax-advantaged college savings programs (prepaid tuition plans, college savings trusts, and college savings bonds) have proliferated since 1994. This study, which examined 160 documents from 44 states, focuses on their effect on policy, and on the debate over public-versus-private responsibility to pay for higher education, as well as the corollary issues of access and equity. Plans were found to range in a continuum from greater public responsibility to greater private responsibility, with recent state actions leaning towards the private end. Rhetorical analysis, which focused on what states said they were doing, revealed three major themes of public discourse surrounding the adoption, implementation, and promotion of state-sponsored tax-advantaged plans: the economic value of higher education; state duty to provide educational opportunity and encourage/assist citizen participation; and student debt reduction and anti-generational burden shifting. Content analysis of state programs, which focused on what states were actually doing, concentrated on factors most relevant to the public-versus-private issue: program type; guarantees; state contribution; tax treatment; and state financial aid. This analysis confirms the position that parents should bear most of the burden; state rhetoric offers the same conclusion. A taxonomy of state programs is appended. (Contains 59 references.) (RH)

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STATE-SPONSORED, TAX-ADVANTAGED COLLEGE SAVINGS PLANS: A STUDY OF THEIR IMPACT ON CONTEMPORARY UNDERSTANDING OF THE PUBLIC-VERSUS-PRIVATE RESPONSIBILITY TO PAY FOR HIGHER EDUCATION ISSUE

by

Andrew Paul Roth

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Presented at the
Association for the Study of Higher Education
Annual Meeting
San Antonio, Texas
November, 1999

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This paper was presented at the annual meeting of the Association for the Study of Higher Education held in San Antonio, Texas, November 18-21, 1999. This paper was reviewed by ASHE and was judged to be of high quality and of interest to others concerned with higher education. It has therefore been selected to be included in the ERIC collection of ASHE conference papers.

BACKGROUND

State-sponsored, tax-advantaged college savings programs (prepaid tuition plans, college savings trusts, and college savings bonds) have proliferated since 1994. This research focused on such plan's impact on current public policy attitudes towards the relative ***public-versus-private responsibility*** to pay for higher education issue because of the relationship between the responsibility to pay for higher education and the corollary issues of access and equity. Since at least the time of the Serviceman's Readjustment Act of 1944 (the "G.I. Bill"), it has been public policy to increase access to higher education opportunities as widely and equitably as possible. In this context, equity has come to mean without regard to either the student's or the student's parent's ability to pay. State-sponsored, tax-advantaged college savings plans, however, imply the possession by either the student, the student's parents or some other interested party (e.g., grandparents) of investable assets. To the extent that the possession or lack of such assets determines a student's access to publicly subsidized student financial assistance, then such plans suggest a rethinking of both the question of whose responsibility it is to pay for higher education and the corollary issues of access and equity. As a result, the question arises, "Does the emergence since 1994 of prepaid tuition and other state-sponsored, tax-advantaged college savings plans indicate a shift in public policy to a greater private (i.e., increased parent and student) and a reduced public (i.e., taxpayer and government) responsibility for paying for higher education"?[1]

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[1] As the research progressed, a sub-theme emerged. This sub-theme reflected the states's message that paying for higher education was increasingly a private responsibility and that within this private sector responsibility the burden was essentially parental. A rhetorical analysis of the discourse surrounding the implementation of such plans revealed a clear anti-generational burden shifting tone reasserting the notion of a parental duty to fund their children's higher education.

Early research concerning the policy implications of state-sponsored, tax-advantaged college savings plans was rare (Mackey, 1990; Prather, 1990). Most discussions focused on the various programs other characteristics. Horvitz (1993) studied their value as financial investments. The convoluted history of the federal government's attempts to tax and different states's agencies and trusts attempts to shield their assets and earnings from federal taxation received copious treatment (Gunn, 1990; Phillips, 1990; Kelly, 1991; and Williams, 1993). The use of either or both prepaid tuition plans and college savings plans (taxable and tax exempt) as a response to the college affordability issue has been studied by state commissions (California State Postsecondary Education Commission, 1988; Minnesota Higher Education Coordinating Board, 1988; Virginia State Council of Higher Education, 1993 and the Illinois Board of Higher Education, 1994 among others) and by individual investigators (Foose and Myerson, 1986; The College Board, 1987; Hansen, 1990; McDuff, 1990; Anderson, 1991; Hauptman, 1991; Olivas, 1993; Mumper, 1996; and Davis, 1997). Their potentially regressive characteristics were explored by Lehman (1993) and the American Association of State Colleges and Universities (AASCU ONLINE, 1997) through an analysis of program participants's socioeconomic characteristics. Lastly, Nelson (1988), Baum (1990 and 1991), and DuBrock (1994) discussed the usefulness of such programs as a prod to parental savings for college.

None of these studies examined state-sponsored, tax-advantaged college savings plans from the perspective of their impact upon current understanding of the ***public-versus-private responsibility*** issue. Understanding that impact is critical, for, as Callan and Finney note, the cumulative impact of incremental changes in state and federal policies results in a "fundamentally different public policy for financing higher education than existed even a decade ago" (1998, p.xi).

It is not an either/or question of responsibility to pay for higher education. Current policy proceeds from the assumption that paying for higher education is a burden shared among taxpayers, parents, students and donors (Johnstone, 1986). The question, therefore, is one of relative responsibility -- does the plan move toward 1) a greater or lesser public or 2) a greater or lesser private responsibility to pay for higher education? It helps to see the relative ***public-versus-private responsibility*** to pay for higher education as not mutually exclusive, but as points along a continuum from public to private. Such a continuum might look like that in Figure One.

FIGURE I.
State-Sponsored, Tax-Advantaged College Savings Plans: A Continuum of Their Relative "Publicness" *re* the Public-versus-Private Responsibility to Pay or Higher Education Issue.

{1}<----------->{2}<----------->{3}

Greater Public *Mixed* *Greater Private*

A college savings plan with a 'greater public' tendency, for example, might have the following characteristics: 1) it is tax exempt, 2) it has minimal buy-in features, 3) its rate of return is linked one-to-one with the rate of tuition increase in the sponsoring state, 4) it guarantees a given unit of tuition for a given pre-purchased unit of tuition, 5) it is backed by the full-faith-and-credit of the state, and 6) its benefits are excluded from needs analysis for purposes of determining financial aid eligibility.

On the other hand, a plan leaning toward a 'greater private' responsibility resembles some of the earliest prepaid tuition programs. Its benefits are taxable, it has substantial buy-in requirements, its rate of return is only indirectly linked to the state's rate of tuition increase, it

does not necessarily guarantee a specific amount of tuition credit in return for a given investment, it is not backed by the full-faith-and-credit of the state, and its benefits are included in needs analysis for purposes of determining financial aid eligibility (i.e., it is "instead of" rather than "in addition to" other sources of financial aid).

A mixed plan combines some of the features of both of the above. It is indicated by the movement away from prepaid tuition plans and toward tax exempt college savings plans. Such mixed plans typically involve varying levels of state subsidy and state investment insurance. Their rate of return is not tied to the rate of tuition increase in the sponsoring state and they do not guarantee a specific amount of tuition for a given investment. They are, however, tax advantaged and are excluded from needs analysis for purposes of determining financial aid eligibility. None of the numerous existing examples of tax-advantaged college savings plans is entirely either one or the other of the above categories, but each exhibits a specific tendency in one or the other directions.

Such plans, then, are a barometer of current policy thinking and imply the plan's sponsor's position in the on-going conversation about access, equity and the relative ***public-versus-private responsibility*** issue.[2] Since whose responsibility (and in what proportion) it is to pay for higher education is a crucial public policy question, understanding where a particular state's program fits

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[2] The issue, however, is actually subtler. State-sponsored, tax-advantaged college savings plans are almost by definition "private", i.e., they require private participation in the form of prepaid tuition investments and savings deposits. The question, therefore, becomes what is the relative "publicness" or "privateness" of a given state's plan within the a priori private nature of such plans. Further, within the larger context of a given state's overall higher education funding scheme, what does the state's tax-advantaged college savings program suggest about the state's evolving policy regarding the ***public-versus-private responsibility*** to pay for higher education issue.

in the above continuum suggests that state's current policy thinking relative to the access, equity and ***public-versus-private responsibility*** issues. Further, an analysis of the national scene implies to which end of the continuum the oscillations of national policy are currently moving.

METHODOLOGY

Examining such plans's policy impact from a rhetorical perspective (i.e., "What do the states say such plans mean?") and, conversely, from a behavioral perspective ("What do such plans collectively seem to imply about the evolving national policy towards the ***public-versus-private responsibility*** issue?") reveals that movement. To do this, it was necessary to create a taxonomy of all such plans describing the current landscape of state-sponsored, tax-advantaged college savings programs. This required answering three essentially descriptive micro-guiding questions: 1) conceptually, what are state-sponsored, tax-advantaged college savings plans; 2) where and when did such plans originate and how did they develop; and 3) what do they look like now?

Creating a taxonomy of current plan types required defining the following addditional terms: a) tax-advantaged, b) tuition futures, c) prepaid tuition, d) college savings bonds and e) college savings trusts. This was necessary because the terms are frequently used synonymously when, in fact, they are quite distinct. Additionally, question one ('Conceputally, what are such plans?") necessitated identifying and defining those characteristics common to all types of plans important to understanding how each type of plan impacts the macro-guiding question. This required defining 1) state guarantee, 2) state contribution, and 3) state and federal financial aid treatment.

Answering question two ("Where did such plans originate and how did they develop?") led to the following subsidiary questions:

a) Where, when and by whom did the concepts originate?
b) What does a time line of the plans's evolution look like?
c) What is the history and current status of the plans's tax liability?
d) How did/does that tax liability influence the growth of such plans?

Question three ("What do they look like now?") required constructing a summary taxonomy of all programs. The taxonomy focused on characteristics germane to understanding the program's impact on the ***public-versus-private responsibility*** issue. Those characteristics are:

a) What are the plan's eligibility requirements?
b) What are its purchase options and requirements?
c) What is its rate of return?
d) Are its assets and earnings guaranteed by the sponsoring state?
e) Does the sponsoring state contribute to the plan?
f) What is the withdrawal penalty?
g) What is the plan's state tax liability?
h) How are the plan's assets treated during needs-analysis to determine eligibility for state need-based student assistance?
I) What does the rhetoric of the plan's statement of legislative intent, its sponsors pronouncements, and its promotional material imply about its relationship to the ***public-versus-private responsibility*** issue?

Document analysis was employed to develop a narrative history of the ideas of prepaid tuition and other tax-advantaged college savings plans, to analyze the tax controversy surrounding such plans, to develop a taxonomic description of their status circa autumn 1998 and to glimpse the policy motivations of their proponents. Documents reviewed included sponsoring and enacting legislation, court records, media coverage, public relations releases, brochures, application and enrollment booklets, master agreements, disclosure statements and reports published by the agencies promoting and managing the various plans. These documents were thematically analyzed (Rist, 1982) according to topics relevant to the ***public-versus-private responsibility*** issue.

CONCEPTS AND DEFINITIONS

Tax-advantaged college savings plans are savings instruments given favorable tax treatment by the federal government and the issuing state. Currently, such treatment is limited to those plans sponsored by the federal government and the various states. Although there are sundry private plans, they do not yet receive tax advantages. Further, President Clinton's veto of the Republican's 1999 Tax Cut Bill has temporarily halted Congressional attempts to extend favorable federal tax treatment to college savings plans (Hebel, 1999, September 24). Since the Taxpayer Relief Act of 1997, the federal government has provided two types of tax credits for educational expenses and tax-advantaged treatment to education IRAs and Series EE United States Savings Bonds when the proceeds are used to pay educational expenses. Such favorable treatment is subject to income restrictions and, phases out for families with incomes in excess of $100,000. After passage of the Small Business and Jobs Protection Act of 1996, the federal government has exempted state sponsored college savings plans from taxation on the state's trust's earnings and deferred taxation on individual account's earnings until they are redeemed for educational purposes, at which time they are included in the beneficiary's taxable income. In regard to contributions, the federal government does not extend any favorable treatment -- all contributions are made with after-tax dollars.

Tax-advantaged treatment on the part of the sponsoring state can take several forms. First, contributions to state sponsored plans may receive favorable treatment. Some states exclude all or some portion (usually up to $5000) of contributions from taxable income (e.g., Iowa, New York, Utah and others). Secondly, earnings on individual accounts are excluded from the purchasers's taxable income. Thirdly, account earnings are included in the beneficiary's taxable income, but are

either tax deferred or tax exempt. When tax deferred, state policies track the federal code and earnings are taxed at redemption at the beneficiary's rate. If tax exempt, they are not subject to any state income tax.

As investment items, state-sponsored, tax-advantaged college savings plans are variations on three basic types. They are either **college savings bonds**, **college savings trusts** or **prepaid tuition plans**. **College savings bonds** are the simplest. They are state issued, zero-coupon, general obligation bonds earmarked for college savings. As zero-coupon bonds, they do not pay any interest during the life of the bond. Instead, they are denominated in specific face values, usually $5000 and $10,000, and sold at deep discounts and held for a specified number of years before maturity. At maturity, they are redeemed for their face value. The rate of return they earn for the bondholder is a function of the price the bondholder paid for the bond and the number of years which it was held. Their chief attractions to purchasers are 1) they are by definition exempt from state taxation and 2) as general obligation bonds of the issuing state they are backed by the state's full faith and credit.

College savings trusts are special trust funds created by state legislatures to provide their citizens access to federal tax advantages created by the Small Business and Jobs Protection Act of 1996's revision of Section 529 of the Internal Revenue Code. In brief, they are specialized savings accounts whose interest income, when used to pay qualified higher education expenses, is excluded from the account purchaser/owner's taxable income and is tax deferred until the account is redeemed. At redemption, the earnings are considered income to the beneficiary and taxed at the beneficiary's rate. As noted earlier, state tax treatments take a variety of forms.

Prepaid tuition plans are a variation on the financial concept of a "future." A buyer of a

"future" purchases an interest in the future delivery of a commodity at today's lower prices in order to avoid future price increases. The seller, on the other hand, sells now in order to either a) hedge against a feared future price decline or b) to leverage the funds obtained from the buyer's prepayment. Futures reverse the common sense roles of buyers and sellers. Buyers of futures now have a vested interest in the price of the commodity they purchased increasing, for the rate of return on their investment is a function of that increase. Sellers, on the other hand, have a vested interest in suppressing price, for the lower the price at delivery date the greater their rate of return (plus an any additional leveraged earnings they acquired with the buyer's funds during the interim). This characteristic of financial futures explains why the higher education establishment has been the least interested (if not outright hostile) observer of the prepaid tuition movement (Dave Atkinson, Chief of Staff to Pennsylvania State Senator Robert Jubilerer, R-Altoona, personal communication, October 13, 1998; Mackey, 1990). They understand that states selling prepaid tuition plans with rates of return linked to increases in in-state tuition rates now have a vested interest in keeping tuition low in order to minimize the state's risk.

In certain ways, prepaid tuition plans are not pure financial futures. First, since the sellers have pegged the rate of return to the rate of increase in in-state tuition, the sellers have obligated themselves to deliver a commodity at a pre-determined price over whose supply, demand and pricing they have no control. This limits the seller (in this case, the state's) ability to set price and/or take advantage of technological breakthroughs or other cost reduction measures that would enable them to lower their cost functions and subsequent prices. Secondly, in prepaid tuition plans, the buyers, by statute, lose control of their investment. They cannot manage their individual investment funds and there is no secondary market in which they can attempt to resell

the prepaid plan. Because of these and other legal restrictions, prepaid tuition plans are only similar but not identical to financial futures. Fundamentally, however, they are a future -- a buyer purchases tuition today to hedge against anticipated future tuition price increases.

In addition to program type and the tax treatment afforded them, there are several other concepts important to understanding tax advantaged college savings plans's relationship to the ***public-versus-private responsibility*** issue. These are a) **financial aid treatment**, b) **state contribution** and c) **state guarantee**. In terms of the ***public-versus-private responsibility*** issue, it is important to ascertain if a college savings plan's individual account assets are included or excluded from needs analysis for purposes of determining eligibility for state sponsored, need-based student assistance, which speaks to whether such plans are 'in addition' to or 'instead of' existing programs. Currently, federal needs analysis considers prepaid tuition accounts as either an additional resource or a form of financial aid; college savings trusts are considered an additional parental resource. The former results in a direct reduction in the student's cost of attendance and the latter in an increase in Expected Family Contribution (U.S. Department of Education, 1998, pp. 50-54). State financial aid treatment varies from silence on the issue to statutory prohibitions against including program assets in state needs analysis. For those states which include tax-advantaged savings assets in needs analysis, the question arises are they treated as a student or as a parental asset. Parental assets are generally accorded more shelter in the needs analysis methodology, and such treatment by the state implies a more public and a less private responsibility.

State contribution refers to whether or not a state's college savings program employs some combination of state and private donations and/or the use of premiums (trust fund earnings

in excess of those necessary to meet anticipated obligations) either to provide supplemental contributions to individual accounts or to create a parallel program to help disadvantaged students whose families are unable to participate in the savings program. Although most states do not have such contributions, many do and they are a growing feature of tax advantaged college savings programs as states become sensitive to their plan's impact on the ***public-versus-private responsibility*** issue.

State guarantees concern whether or not the sponsoring state in some way guarantees either the program's rate of return or the individual account owner's principal. This can be done by either using the state's full faith and credit or a legislative provision in the enabling legislation to appropriate sufficient funds to meet the trust's obligations. Most states do not guarantee their programs. In most states, account assets are only guaranteed by the state trust fund created to administer the program. The fund's liability only extends to its available assets. At first this seemed critical to understanding how a state's college savings program impacted the ***public-versus-private responsibility*** issue. In practice, however, the states have created elaborate investment systems to protect their programs's financial integrity. Nonetheless, those states which do employ either their full faith and credit or make a legislative commitment to appropriate funds are making a stronger public commitment than those that do not.

ORIGIN AND GROWTH

The use of the tax code to encourage college attendance was discussed as early 1965 during adoption of the original Higher Education Act (Hauptman and Rice, 1997). Serious contemporary interest in prepaid tuition plans began with an article by Bolch and Hinshaw in the

Journal of Education Finance (1977). In the early 1980s, several private colleges, chief amongst whom was Duquesne University in Pittsburgh, began selling prepaid plans to their alumni. Duquesne was joined by other private colleges in the surrounding region, including Canisius College and Gannon and Niagara Universities. They all rather quickly abandoned the idea for either or both of two reasons: 1) their alumni did not respond to the offer in sufficient numbers to create an actuarially sound investment pool and/or 2) the investment market of the early and middle 1980s did not keep pace with that decade's rapid increase in tuition and fees (Evangelauf, 1988, March 16).

As indicated in the Timeline in Figure II, during the middle and late 1980s a variety of states either implemented or made plans to implement state-sponsored prepaid tuition programs. Michigan's Educational Trust (MET) was the first, but it was quickly followed by Florida and Wyoming (Prather, pp. 20-21). Other states began planning to introduce similar programs, including Indiana, Louisiana, Maine, Missouri, Ohio and others (Prather, pp. 22-23). Only Florida, Wyoming and Ohio actually implemented their plans after Michigan's receipt of an unfavorable tax ruling in the IRS's Private Letter Ruling 88-25-027. Growth in state-sponsored prepaid tuition programs slackened in the late 1980s and early 1990s. Alabama and Ohio's programs, both in 1989, and Pennsylvania's in 1992 were among the few plans put in place as Michigan and the IRS litigated the tax liability of state-sponsored prepaid tuition programs. In the meantime, other states began college savings bond programs, including Illinois, Arkansas, Virginia and others. States found bonds attractive because they lacked the tax ambiguity surrounding prepaid plans and the nascent college savings trusts. As general obligation bonds of the state, states were familiar with not only the tax implications of such instruments, but also their

administration and merchandising. The combination of a known tax status, low administrative fees and low or no additional risk to the state made college bonds the state supported savings vehicle of choice in the late 1980s and early 1990s.

States sought to adopt tax-advantaged plans (bonds or prepaid tuition) for a variety of reasons. First, the well-documented increase in higher education tuition and fees during the period, second, the proportionately reduced ability of household income to fund those increases, as indicated by increased student borrowing and, thirdly, other claims on the states resources. Other claims on the states's resources included K-12 education, state infrastructure expenditures (i.e., roads, etc.) and corrections (Mumper, 1996). When combined with the Republican led tax rebellion of the 1980s and 1990s and the era's anti-higher education bias, the perception of limited state resources and a growing middle-class affordability gap led policy makers to tax-advantaged college savings plans as a public policy option that 1) helped their essentially middle-class constituencies meet the perceived affordability challenge and 2) avoided increasing taxes. Tax-advantaged college savings plans presented public officials with the seemingly irresistible combination of helping people with a new government program and simultaneously reducing taxes. Moreover, since the new student assistance initiatives were funded with foregone taxes and were, in most cases, to be administratively self-supporting, such programs had the potential additional benefit of being off-budget, i.e., nowhere in the state budget would there be a line item specifically identifying the new program's cost.

Figure II: Timeline: The Rise of Tax Advantaged College Savings Plans

1977----------1983/86------1987----------1988-------1989----------1992------1994----------1996-------1997----------1998/2000

Bolch/Hinshaw article in *Journal of Education Finance*

Michigan begins MET

Alabama
Ohio
Illinois (bonds)

IRS Private Letter Ruling 88-25-027

Private Colleges Drop Plans

Duquesne U.
Canisius College
Niagara University &
Gannon University
attempt plans

Michigan loses
State of Michigan v. US
802 F. Supp. 120
(W.Dist. of Michigan, 1992).

Pennsylvania begins
Tuition Account Program

Growth of State Plans Stalls

Michigan wins
State of Michigan
and MET v. US
40 F. 3d. 817
(6th Cir. 1994).

Small Business & Jobs Protection Act
Public Law 104-188)
revises IRS Code S. 529

Taxpayer Relief Act of 1997
Hope & Lifelong Learning Tax Credits
Education IRA

Private companies begin to sell plans

Since 1996, 31 states have begun some type of program; at first college savings trusts dominated, but since 1998 there has been a surge in prepaid plans.

Source: The Author

Michigan and the federal government argued in court for six years over the tax status of Michigan's Educational Trust (MET) program. During that period, growth in prepaid plans slumped. By the early 1990s it began to appear that Michigan would ultimately prevail and several states either adopted or began to implement tax-advantaged college savings plans. These included Kentucky in 1988, Alaska in 1991, Pennsylvania in 1992, Virginia in 1994 and Massachusetts, Louisiana, Wisconsin, and Texas in 1995. Nonetheless, even after Michigan won in the Sixth Circuit in 1994, states were hesitant to adopt such plans until the tax ambiguity was eliminated. Public Law 104-188, the Small Business and Jobs Protection Act of 1996, amended the IRS code to exempt qualified state tuition programs from federal taxation.

The revision of Section 529 of the IRS Code is important for several reasons. First, as summarized in Table I, it's general provisions serve as a template for program design for all types of state-sponsored, tax-advantaged college savings plans. It defines what constitutes an eligible program, contribution and refund policy, fund management policies, ownership criteria, the meaning of 'eligibile educational expenses' and 'eligibile educational institution', and such plans's individual tax implications. Secondly, it declared the trusts created by the sponsoring states to manage such programs exempt from federal taxation if they met certain criteria (see Sub-section (b) (1) Qualified State Program). Thirdly, it exempted individual contributions to such plans from gift taxes, declared program earnings as taxable to the benefciary and deferred taxation until the benefits were redeemed. It did not, however, exempt such program earnings from individual federal income taxes. Efforts continue in Congress to extend exemption from federal income taxes to such earnings (Hebel, 1999, August 13).

Table I. 26 US Code: Internal Revenue Code, Section 529: Qualified State Tuition Programs	
Sub-section	Definition
(a) General Rule	"A qualified State tuition program shall be exempt from taxation under this subtitle."
(b)(1) Qualified State Program	"The term 'qualified state tuition program' means a program established and maintained by a State or agency or instrumentality thereof..."
(b)(2) Contributions	" A program shall not be treated as a qualified State tuition program unless it provides that purchases or contributions may only be made in cash."
(b)(3) Refunds	"A program shall not be treated as a qualified State tuition program unless it imposes a more than de minimis penalty on any refund of earnings from the account" which are not used to pay for qualified higher education expenses.
(b) (4) Separate Accounting	"A program shall not be treated as a qualified State tuition program unless it provides separate accounting for each designated beneficiary."
(b) (5) No Investment Direction	"...any contributor to, or designated beneficiary under, such program may not direct the investment of any contributions to the program (or earnings thereon)."
(b) (6) No Pledging of Interest as Security	"A program shall not be treated as a qualified State tuition program if it allows any interest in the program or any portion thereof to be used as security for a loan."
(b) (7) Excess Contributions	"A program shall not be treated as a qualified State tuition program unless it provides safeguards to prevent contributions on behalf of a designated beneficiary in excess of those necessary to provide for the qualified higher education expenses of the beneficiary."
c) (1) Tax Treatment	"...no (contributed) amount shall be includible in gross income of (a) designated beneficiary... or (b) a contributor to such program...with respect to any distribution or earnings..."
c) (2) Contributions	"In no event shall a contribution ... on behalf of a designated beneficiary be treated as a taxable gift for purposes of chapter 12." Nb. Subject to the $10,000 exclusion allowance.

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Table I. 26 US Code: Internal Revenue Code, Section 529: Qualified State Tuition Programs	
Sub-section	Definition
c) (3) (A) Distributions	"Any distribution under a qualified State tuition program shall be includible in the gross income of the distributee..."
c) (3) © Transfers	Distributions can only be transferred to a new beneficiary who is a family member directly related to the original beneficiary; i.e., a sibling, a child, a step-child, a grand child, or a step grand-child.
c) (4) (A) Estate Taxes	"No amount shall be includible in the gross estate of any individual for purposes of chapter 11 by reason of an interest in a qualified tuition program."
e) (3)(A) (B) Qualified Higher Education Expenses	"The term 'qualified higher education expenses' means tuition, fees, books, supplies, and equipment required for the enrollment or attendance of a designated beneficiary at an eligible educational institution." Room and board is also included for students enrolled at least half-time.
e)(5)(A)(B) Eligible Educational Institution	"...which is eligible to participate in a program under Title IV" of the Higher Education Act of 1965, as amended.

Source: Adapted by the author from J.E. Smith (1999), West's Internal Revenue Code of 1986 and Treasury Regulations: Annotated and Selected. Cincinnati, OH: West/South-Western Educational Publishing, pp. 555-558.

Federal ambivalence about using the tax code to provide students and families college financial support can also be seen in the various provisions of the Taxpayer Relief Act of 1997, in which forces that sought greater direct public assistance (e.g., increasing Pell award ceiling authorizations and easing Pell eligibility requirements, etc.) and those that sought a lesser or no direct public assistance and an increased private and an indirect public role found some tenuous common ground (Lederman, 1997, November 28). Table II: Taxpayer Relief Act of 1997 summarizes the key components and provisions of the act.

For purposes of understanding the federal government's position relative to the ***public-***

versus-private responsibility issue and how that position impacts state sponsored tax advantaged college savings plans, there are several key elements. Those elements are contribution limits, income participation limits, the "no-double-dipping" provision, and tax treatment. By placing ceilings on who can participate in such programs, the federal government is still placing its emphasis on access and equity and to a lesser extent middle-class affordability. No state program has income limits on who may participate. By limiting amount of contributions to an Education IRA to $500 and prohibiting double-depositing in both an Education IRA and a state sponsored program, the federal government is again attempting to restrict the ability of previously ineligible recipients from receiving taxpayer subsidized student assistance. By making the HOPE and Lifelong Learning Tax Credits net of other taxpayer assistance, whether directly through grants and loan subsidies or indirectly through tax-free assistance (i.e., tax advantaged state programs), the government is again limiting previously ineligible recipients access to taxpayer funds. All of these actions posit a position on the part of the federal the government at the public end of the ***public-versus-private responsibility*** continuum.[3]

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[3] It could be argued that making the HOPE and Lifelong Learning Tax Credits net of other taxpayer funded student assistance is regressive and places the federal government at the continuum's private end, because a) those who qualify under current law for such assistance are the most needy and b) in terms of the debate established earlier it results in an "instead of" rather than an "addition to" policy. It was beyond the scope of this project to analyze the public discourse surrounding either the Small Business and Jobs Protection Act or the Taxpayer Relief Act of 1997, but in each instance support for such provisions came from those most interested in increasing private responsibility and addressing the issue of middle-class affordability and least interested in the issues of access and equity (Lederman, 1997, November 28).

Table II. Taxpayer Relief Act of 1997 (Public Law 105-34): Key Components	
Component	Provisions
HOPE Scholarship Tax Credit	1) Students in first two years of college enrolled at least half-time receive 100% federal income tax credit on the first $1000 of tuition and required fees and a 50% credit on the second. 2) The credit is tuition and fees less any grants, scholarships, or tax-free educational assistance. 3) Maximum allowable income is $50,000 for a single filer and $100,000 for joint filers.
Lifelong Learning Tax Credit	1) Students beyond the first two years or enrolled less than half-time receive a 20% federal income tax credit on the first $5000 of tuition through 2002 and the first $10,000 after 20002. 2) The credit is tuition and fees less any grants, scholarships, or tax-free educational assistance. 3) Maximum allowable income is $50,000 for a single filer and $100,000 for joint filers.
Education IRA	1) Families may deposit up to $500 per year in an Education IRA for each child under 18. 2) Contributions are not tax deductible, but earnings are tax exempt and excluded from the beneficiary's taxable income if used for qualified higher educational expenses. 3) The benefit phases out for families with incomes in excess of $150,000, or single filers with incomes in excess of $95,000. 4) A student may not in the same year receive a HOPE or Lifelong Learning Tax Credit and distributions from an Education IRA. 5) Because of excess contribution concerns, deposits may not be made to both an Education IRA and a state sponsored plan in the same year.
IRA Withdrawals	Withdrawals may be made without penalty from regular existing IRAs for the postsecondary educational expenses of the taxpayer, spouse, child or grandchild.
Prepaid Tuition Plans	1) When using a qualified state tuition plan, no income tax is due on earnings until the time of withdrawal. 2) Users of such funds may are also eligible for HOPE and Lifelong Learning Tax Credits.
Student Loan Interest Deduction	1) Students or their families may deduct from federal income taxes interest paid during the first 60 months of repayment, regardless of whether or not they itemize deductions. 2) Maximum deduction is $1,000 in 1998, $1,500 in 1999, $2,000 in 2000 and $2500 in 2001 and beyond. 3) The deduction is phased out for single filers with incomes in excess of $40,000 and joint filers with incomes in excess of $60,000.
Student Loan Forgiveness	Students who take community service jobs that address unmet community needs and have all or part of their loans forgiven by a tax-exempt charitable or educational institution now do not have to pay taxes on the gift.

Source: The Author. Adapted from National Association of College and University Business Officers, Provisions of Interest in the Taxpayer Relief Act of 1997. [Online]. (Available: http://www.nacubo.org) and the National Center for Public Policy and Higher Education. (1998, July). Maximizing the Effectiveness of the New Federal Tuition Tax Credits, pp.1-2.

As a result of the Small Business and Jobs Protection Act of 1996 and the Taxpayer Relief Act of 1997, and President Clinton's veto of the 1999 tax cut bill, the federal government's position vis-a-vis the ***public-versus-private responsibility*** issue and state-sponsored, tax-advantaged college savings plans is reasonably clear. While supporting the basic premise of using the tax code to enhance families college saving opportunities, the federal government is attempting to target student support to the neediest. The situation, however, continues to evolve.

With the federal tax status of state-sponsored, tax-advantaged college savings plans more or less resolved and the first burst of post-tax resolution growth ending in 1999, the era of plan founding is complete. The earliest plans were either prepaid tuition plans or college savings bonds. The prepaid plans hooked their rate of return to the increase in in-state public institution tuition and fees. Because of the uncertainty surrounding the high rates of increase in tuition and fees during the late 1980s and early 1990s, the plans were sometimes guaranteed by the issuing state and sometimes not. Those states which were wary of guaranteeing prepaid plans, but wanted to offer their citizens some semblance of a program attacking the problem of middle-class affordability opted for college savings bonds. Because of either an implied guaranteed rate of return (the one-to-one linkage with the rate of increase in in-state public tuition and fees) and/or the guaranteed nature of a bond, such plans tilted toward the public end of the ***public-versus-private responsibility*** continuum.

The great surge of growth between 1996 and 1998, however, was in the new concept of college savings trusts. These plans neither guarantee a rate of return nor are they guaranteed by the state. In many ways, they are simply state "constructs" created to afford a given state's citizens access to the federal tax advantages under IRS Section 529: Qualified State Tuition

Programs. As a result, they lean toward the private end of the ***public-versus-private responsibility*** continuum. The situation, however, is very fluid. Those programs which began during 1998 and 1999 often included several very public sounding provisions: 1) contributions are tax deductible, 2) earnings are tax exempt and 3) account assets are excluded from state needs analysis (Rhode Island even precludes any in-state institution from including account assets in their institutional recalculations of student ability to pay).

Tables III - VI describe the evolving national landscape in 1999 for state-sponsored, tax-advantaged college savings plans.

Table III: The National Context	
Program Type	Number of States
No Program	6
Pending	3
Feasibility Study	3
College Bonds	5
Prepaid Tuition Plans:	19
Contracts	12
Credits	2
Units	5
College Savings Trusts	19

Source: Author

Table IV: States Currently Without a Tax Advantaged College Savings Program	
State	Comment
Arkansas	Arkansas discontinued its bond program. Currently, legislation has passed creating a prepaid plan for implementation in late 1999 or early 2000.
District of Columbia	Implementing a prepaid plan in 1999.
Georgia	HOPE Scholarship program
Hawaii	No current plans after prepaid proposal defeated in legislature.
Idaho	No current plans after prepaid proposal defeated in legislature.
Kansas	Studying feasibility; report due to legislature in January, 1999.
Maine	Implementing a prepaid plan in 1999.
Nebraska	No current plans after prepaid proposal defeated in legislature.
New Mexico	Feasibility study concluded; it recommended beginning both a prepaid and a college savings trust plan in 1999. Administrative details currently under review.
North Dakota	No current plans after prepaid proposal defeated in legislature.
South Dakota	No current plans after prepaid proposal defeated in legislature.
Wyoming	Discontinued prepaid plan in early 1990s; currently studying feasibility of reinstating the program.

Source: Author.

Table V: States with College Savings Bond Programs	
State	State Guarantee
Arkansas	Yes
Illinois	Yes
Minnesota	Yes
Oregon	Yes
Pennsylvania	Yes
Note: Since these are general obligation bonds of the issuing state they are by definition backed by the state's "full faith and credit" regardless of how the proceeds are used.	

Source: Author.

Table VI: States with Prepaid Programs		
State	Program Type	State Guarantee
Alabama	Contract	No
Alaska	Credits	No
Colorado	Units	No
Florida	Contract	Yes (Legislative Appropriation)
Illinois	Contract	Yes (Legislative Appropriation)
Maryland	Contract	No
Massachusetts	Contract/Units	Yes (Full Faith & Credit)
Michigan	Contract	No
Mississippi	Contract	Yes (Full Faith & Credit)
Nevada	Contract	No
Ohio	Units	Yes (Full Faith & Credit)
Pennsylvania	Units	No
South Carolina	Contract	No
Tennessee	Units	No
Texas	Contract	Yes (Legislative Appropriation)
Virginia	Contract	No
Washington	Units	Yes (Full Faith & Credit)
West Virginia	Contract	No
Wisconsin	Units	No
Definitions: State Guarantee means backed by the state's full faith and credit or mandated legislative appropriation. Program Types: 1) Contracts, in which a purchaser purchases some pre-stated amount of tuition & fees in increments of 1-4 years; Units, in which the purchaser purchases units, usually denominated as 1% of one year's tuition and fees; and Credits, usually defined as one credit at the public in-state tuition & fees rate.		

Source: Author.

RHETORICAL ANALYSIS

Using techniques borrowed from information theory, rhetorical analysis and ethnographic coding and analysis, the public discourse surrounding the adoption, implementation and promotion of state-sponsored, tax-advantaged college savings plans was examined. Documents from 44 states were scrutinized, with program brochures the most common. Program brochures, however, ranged from simple promotional pieces to lengthy documents including promotional material, disclosure statements, master agreements, contracts and, in a few instances, complete copies of the enabling legislation. Apart from the legislation itself, the most frequently accessed source was the contemporary phenomenon of Internet based Web Sites, which virtually all state programs now operate. Table VII lists the document types and their proportion of all documents analyzed.

Table VII: Sources Used in Discourse Analysis

Item	Number	% of Sources
States	44	100%
Legislation	18	11.25%
State Sponsored Studies	2	1.25%
Program Brochures	28	17.5%
Disclosure Statements	8	5.0%
Governor's Letters	10	6.25%
State Treasurer's Letters	15	9.38%
WebSites	15	9.38%
Public Relations Releases	15	9.38%
Miscellaneous	5	3.125%
Total Sources	160	100%

Source: Author.

All the documents were analyzed twice. First, they were examined ethnographically, i.e., the documents were simply read through and permitted to speak for themselves and reveal such content domains and sub-components (domain construction and componential analysis {Spradley, 1979}) as might emerge. Three major themes or domains became apparent from this discourse analysis: 1) the economic value of higher education, 2) state duty to provide educational opportunity and to encourage/assist citizen participation, and 3) student debt reduction and anti-generational burden shifting. Next, the documents were revisited and theoretically sampled for references to topics associated with the ***public-versus-private responsibility*** issue -- sharing the burden, "who benefits, etc.", the economic value of education, equity and access, state responsibility for funding higher education, middle-class affordability and student indebtedness. As a result, all the documents were thoroughly combed for evidence of what the states 'say such programs mean'.

Table VIII: Frequency Distribution of Responses Within Rhetorical Analysis Coding Categories identifies the domains's components in rank order of the frequency of their appearance. The two largest domains were parental responsibility and middle-class affordability. Student indebtedness, although mentioned often enough to merit its own domain, was the least frequently mentioned of the major domains. As seen in Table VIII, access and equity and state responsibility were relatively small thematic clusters -- the size of a cluster being a function of the absolute number of times the theme was mentioned in all documents reviewed.

Table VIII: Frequency Distribution of Responses Within Rhetorical Analysis Coding Categories		
Rank	Category	Frequency of Appearance
1	Parental (Private) Responsibility	38.1%
2	Middle-Class Affordability	31.4%
3	Economic Value of Higher Education	18.1%
4	Equity & Access	7.6%
5	State (Public) Responsibility	4.8%
6	Reduce Student Indebtedness	3.8%

Source: Author.

Commentary concerning the economic value of higher education divided into two sub-themes -- the value of education to the student and to the state. Virtually all enabling legislation gave a nod to the economic value of higher education to the state. For example, in the statement of policy prefacing Pennsylvania's Tuition Account Program and College Savings Bond Act, it is remarked that "providing a mechanism to help assure the higher education of the citizens of this Commonwealth is necessary and desirable for the public health, safety and welfare" (24 Pennsylvania Statutes, Section 301 (4), 1992) Arizona, in its statement of legislative intent, declares "The legislature intends to establish the family college savings program in recognition that the general welfare and well-being of the state of Arizona are directly related to the educational levels and skills of its citizens" (College Savings Plan, Article 7, Arizona Revised Statutes, Section 15-1871 (3), 1997).

Representative comments concerning the economic value of education to students include New Jersey's Governor Christine Whitman's "Saving for college means making an investment in the future -- for your children and for New Jersey" (Whitman, Letter from the Governor re

NJBEST, 1998) and Tennessee's Baccalaureate Education System Trust's (BEST) assertion "Our children's education will determine their future" (1998, [Online], p.1).

Regardless of the frequency of their appearance in statements of legislative intent, letters from governors and program literature, statements like these are little more than boilerplate nods to conventional assumptions about higher education's economic value. Nonetheless, they are still important for two reasons. First, they clarify and reiterate the economic value of higher education to the state and its citizens. Secondly, they create a public record asserting higher education's economic value that anyone promulgating the opposite position would first have to refute. The next category of discursive themes, however, is not so redolent of "boilerplatese".

Comments about the state's duty to provide educational opportunity and to encourage/assist citizen participation subdivide into three components: state duty, middle-class affordability and access and equity. The notion of state duty or responsibility is only explicitly mentioned in 4.8% of all the discrete comments or remarks identified and scored for this analysis. While it can be argued that the very existence of such programs and the documents under review imply an acknowledgment and acceptance of a state duty, this analysis is only interested in explicit, concrete remarks. Thus, comments about state duty and student indebtedness had the least mention of those categories identified for analysis. What emerges from the analysis of comments implying some type of state responsibility to address the issues of access and equity is a thundering concern for middle-class affordability, and only occasional, somewhat muted references to maintaining access and equity for those least able to afford higher education.

As indicated in Table VIII, comments about middle-class affordability represented 31.4% of all items scored, which represented a frequency of appearance more than four times greater

than comments about equity and access (which accounted for only 7.6% of all score-able remarks). Middle-class affordability emerges as the second most compelling public rationale for the development of state-sponsored, tax-advantaged college savings plans. In state after state, in all types of documents, there are ringing calls for the state to redirect its attention to the higher education affordability challenge confronting the middle-class. Possibly the most eloquent, certainly the most emotional, came from John Sharp, Texas Comptroller of Public Accounts and Chair of the Texas Prepaid Higher Education Board in a "Letter" included in the Texas Tomorrow Fund Application Booklet,

> When I was young, I watched my parents scrimp and save so they could send my brother and sister and me to college. With tuition and fees rising every year, it's still the source of sleepless nights for many families, especially those who earn too much for their children to qualify for need-based scholarships, but who aren't so well off that the cost of college tuition represents mere pocket change (Sharp, 1997, October).

Or, more succinctly, as Iowa State Treasurer Mike Fitzgerald asked, "What's a family to do?" (Fitzgerald, 1998). Or, South Carolina's plaintive, "How can Mr. and Mrs. Smith afford to pay for their son's college education?" (South Carolina Budget and Control Board, 1998).

Similar comments echo throughout the public discourse surrounding state-sponsored, tax-advantaged college savings plans, but avowals in support of access and equity are proportionately rarer and more subdued. For example, Maryland's Prepaid College Trust says, "It was created to increase access to higher education by making college more affordable" (1998, About the Program [Online], no page number). Or, the late Governor of Florida, Lawton Chiles's, comment about the Florida Prepaid College Program "...entering its tenth year of providing access to higher education for the children of our state" (1998, The Florida Prepaid College Brochure [Online], no

page number).

All of these citations share a large dollop of ritual incantation. The policy drift, however, is inescapable when reviewing state-sponsored, tax-advantaged college savings programs's public documents. Whether in a statistical tabulation of their frequency of appearance or assessing their rhetorical tone, these programs's documents assert that meeting the challenge of middle-class affordability has replaced ensuring access and equity in primacy of place in state higher education student funding policies.

The third major thematic cluster arising from a review of state-sponsored, tax-advantaged college savings plans's public documents coalesces around the sub-themes of student debt reduction, state duty to provide higher education and parental responsibility to pay for their children's higher education. The latter sub-theme might be labeled an "anti-generational burden shifting" mentality on the part of the states. Of those comments that could be isolated and scored, those addressing an explicit state responsibility to fund higher education and a desire to reduce student indebtedness were the least frequently mentioned -- 4.8% and 3.8% of all citations, respectively. In contrast, comments about parental responsibility were the single most frequent of all score-able comments, representing 38.1% of all citations.[4]

If middle-class affordability is the paramount concern expressed in state attitudes towards funding students, then meeting that challenge, with such help as the state can muster, is deemed

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[4] This does not include what one might call the documents's non-verbal rhetoric -- photographs and graphic illustrations. All of these brochures, advertisements, etc., depict young children, parents, or family gatherings puzzling over the challenge of paying for higher education. They display a uniform assumption that all college students are traditional aged and supported by their parents, neither of which, of course, as even the most casual higher education observer knows, is an accurate portrayal of higher education enrollments or funding.

primarily a parental responsibility. Kentucky, in its statement of legislative findings and intent for the Kentucky Educational Savings Plan and Trust Act, states the case clearly, "...a vital and valid public purpose of the Commonwealth is served by the creation and implementation of programs which encourage and make possible the attainment of higher education by the greatest number of citizens of the Commonwealth...[but]...the Commonwealth has limited resources to provide additional programs for higher education funding" (1992, Chapter 164A. Section 300, Kentucky Revised Statutes).

Or, as California says, "...the State of California has limited resources to provide additional programs for higher education funding...[and seeks]...a program with a minimal impact on the state Treasury" (1997, Legislative Declaration, Chapter 851, Section 1, Statutes of 1997). Or, more precisely, Illinois's avowal that "...nor is it reasonable to expect that paying for college is solely a governmental responsibility. It is -- and always has been -- a shared responsibility among the student, the family, state government and the federal government" (Illinois Prepaid Tuition Act, Senate Bill 878, Section 1, 1997).

While comments about limited state resources, limited state commitment and reducing student indebtedness are conspicuous by their relative absence, declarations of parental responsibility abound. From Alabama's "...to assist parents in saving to prepare for future college costs for their children" (Alabama State Treasurer's Office, Al' ama's prepaid affordable college tuition program, 1998, p.2) to California's former Governor Pete Wilson's press release announcing the signing of the Scholarshare Bill, "It gives them [California parents] the opportunity, through hard work and an early commitment to saving, to build the nest egg that can make their kids' dreams a reality" (California Student Aid Commission, 1997, October 10) to

Indiana's Family College Savings Plan's intent "...to encourage parents and others interested in insuring that a child would have the resources for higher education" (Indiana Education Savings Authority, Indiana family college savings plan, 1998, p.1) to Michigan's Educational Trust's provision of "...an avenue for families to invest in their child's financial ability to attend a Michigan institution of higher education" (Michigan Department of Treasury, Michigan education trust (MET) [Online], 1998, no page number) to Ohio's exhortation to "Invest in your child's future" (Ohio Tuition Trust Authority, Ohio's prepaid tuition program: Tomorrow's tuition at today's prices, 1998, p. 1), state program literature and documents maintain a consistent drumbeat declaring that paying for a child's higher education is a parental (and even grandparental) responsibility.

In sum, then, an analysis of the discourse surrounding state-sponsored, tax-advantaged college savings plans reveals that what the states say these programs mean can be encapsulated as follows:

> Higher education possesses unarguable economic benefits both to the student (private) and to the state (public) and it is the state's duty to help provide those benefits to its citizens. The state, however, is constrained by limited resources. As a result, therefore, with continued concern for access and equity but with a primary goal of addressing the challenge of middle-class affordability, the state must find a way, with minimal impact on its treasury, for parents to meet their responsibility to pay for their children's higher education.

Key components of this capsule summary are 1) the state has limited resources and it does not wish to further tax those resources, 2) meeting the middle-class affordability challenge is paramount, and 3) parents bear the primary burden of funding the state's children's higher education. The last item perhaps defines too extreme a position, for one can not lose sight of the elaborate public institutional systems and, in some cases, need-based student assistance programs

funded by the states. It is clear, however, that regarding the ***Public-versus-Private Responsibility Continuum*** the states are assuming a position in the middle and tending toward the continuum's private end. If they are assuming a part of the burden, they are also, as Illinois made explicit, defining it as a shared burden, with an increasing proportion falling to parents and students.

CONTENT ANALYSIS

If state-sponsored, tax-advantaged college savings plans's rhetoric implies a shift toward the private end of the ***Public-versus-Private Responsibility Continuum,*** what does a content analysis of all state programs collectively reveal about the evolving dynamic of the ***public-versus-private responsibility*** issue? As opposed to a rhetorical or discursive analysis, which attended to what the states say they are doing, a content analysis studies what the states are actually doing and attempts to infer from their behavior their underlying assumptions. In order to perform this analysis, those state or programmatic behaviors most relevant to the ***public-versus-private responsibility*** issue were identified. These behaviors, as noted earlier, are program type, state guarantee, state contribution, state tax treatment, and state financial aid treatment.

At first, it was thought that it would be insightful to score each state's treatment of each of these factors on something like a Likert-type scale, with a very public posture being worth five points and no program zero points. This proved untenable, for it introduced an intolerable level of subjectivity (e.g., is Texas's more or less "moral" legislative commitment less 'public' than Louisiana's explicit legislative commitment?). Finally, it was decided to assign a score to each variable and to treat the variable as binary, i.e., if it was present, then it earned the state in question the points assigned to that variable. In the case of any one state, the resultant overall

score might not be as precise as theoretically possible, but the score would be adequate for purposes of deriving a national profile.

This, of course, begs the question of the weight assigned to any one behavioral factor (program characteristic). Table IX: Key Program Characteristics and Scoring Weights identifies the key components and the weights assigned to them. The most points assigned to any one variable is six, reflecting the analytical assumption that the variable in question reflects a maximum "public" tending behavior on the part of the sponsoring state. Obviously, no points assigned reflect a maximum "private" tending position. In practice, however, the minimum number of points assigned was two, leaving the no points, or the purely private end of the continuum for those states currently without a program.[5] Accepting the assumption, then, that six points reflects a maximum "position", it was next necessary to weigh each variable in terms of its relative significance to ascertaining a state's position on the ***Public-versus-Private Responsibility Continuum.*** Guaranteeing a program with the state's full faith and credit and exempting the program from state taxation was defined as the maximum expression of a state's public acceptance of the responsibility to pay for higher education.[6] Similarly, a unit based prepaid

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[5] It is important to remember what is being measured is not the relative "publicness" of a state's entire higher education funding policy, but the relative 'publicness' of its tax-advantaged college savings plan within the context of the inherent privateness of all such plans. The relative 'publicness' of a state's plan then suggests two things: 1) current state policy about its responsibility to 'publicly' assist families fund higher education and 2) collectively the evolving national posture relative to the public responsibility to assist families fund their higher education. Further complicating the issue is the potentially regressive nature of some very public seeming programs whose benefits fall disproportionately to the affluent (see Coda: The Ambiguity of Publicness).

[6] States without state income taxes posed a problem. To assign no points, penalized the state; on the other hand, awarding the maximum points gave the state credit for something it did not do. A compromise assigned six points for tax exemption and none for tax deductibility.

Table IX: Key Program Characteristics and Scoring Weights	
State Guarantee:	
Full Faith & Credit	6
Legislative Appropriation	4
Minimum Rate of Return	4
State Tax Treatment:	
No State Tax	6
Exempt from State Taxes	6
Deferred & Taxed to Beneficiary	4
Contributions Tax Deductible	3-5
Excluded from Financial Aid Needs-Analysis	4
State Contribution	
Scholarship Fund	2
Premium Deposit to Individual Accounts	3
Other Deposit to Individual Accounts	4
Program Type:	
Prepaid:	
Contracts	3
Credits	4
Units	6
College Savings Bonds	2
College Savings Plan Trusts	3

Source: Author.

tuition program was defined as assuming a greater public posture than any other type of program because its low purchase requirements and implicitly guaranteed rate of return signal a strong public posture regarding the ***Public-versus-Private Responsibility Continuum.*** In each of the above instances, the state is maximizing both its risk and its program's inclusiveness. Each other

variable was then assigned a point value according to an assessment of its importance to a program's public posture. Excluding account assets from needs analysis, for example, was assigned four points, because it is a clear public signal. Since the monetary value of that exclusion varies widely among a state's citizens and between states, it was not given the full weight of six points. The only variable with a sliding scale of weights was the tax deductibility of program contributions. Some states deduct all contributions, while others impose a ceiling. Those states which deduct all contributions were assigned five points, and those with deductibility limits were assigned 3-4 points depending on the amount of contributions deducted (see Appendix A). Table X: State Rankings lists each state and its assigned score. Obviously, states without programs do not have a score; Illinois and Minnesota have two scores -- one for their college bond program and their prepaid and college savings plan respectively.

Table X: State Rankings (Maximum Possible Points = 34)

Rank	State	Total Points	% of Max. Pts.	% of Highest Score Earned	% of Mean Score Earned
1	Florida	24	70.6	100	158.4
2	Mississippi	24	70.6	100	158.4
3	Massachusetts	22	64.7	91.7	145.2
3	Ohio	22	64.7	91.7	145.2
3	Pennsylvania	22	64.7	91.7	145.2
3	Washington	22	64.7	91.7	145.2
4	Illinois Prepaid	21	61.8	87.5	138.6
4	Iowa	21	61.8	87.5	138.6
4	Louisiana	21	61.8	87.5	138.6
4	New Jersey	21	61.8	87.5	138.6
5	Texas	18	52.9	75	118.8

Table X: State Rankings (Maximum Possible Points = 34)					
Rank	State	Total Points	% of Max. Pts.	% of Highest Score Earned	% of Mean Score Earned
6	Alaska	17	50	70.8	112.2
6	Kentucky	17	50	70.8	112.2
6	New York	17	50	70.8	112.2
7	Maryland	16	47.1	66.7	105.6
7	Michigan	16	47.1	66.7	105.6
7	Tennessee	16	47.1	66.7	105.6
7	West Virginia	16	47.1	66.7	105.6
7	Wisconsin	16	47.1	66.7	105.6
8	Minnesota CSP	15	44.1	62.5	99
8	Montana	15	44.1	62.5	99
9	Illinois Bonds	14	41.2	58.3	92.4
9	Minnesota Bonds	14	41.2	58.3	92.4
9	Missouri	14	41.2	58.3	92.4
9	Oregon Bonds	14	41.2	58.3	92.4
10	Alabama	13	38.2	54.2	85.8
10	Colorado	13	38.2	54.2	85.8
10	South Carolina	13	38.2	54.2	85.8
10	Utah	13	38.2	54.2	85.8
10	Vermont	13	38.2	54.2	85.8
10	Virginia	13	38.2	54.2	85.8
11	Indiana	11	32.4	45.8	72.6
11	Nevada	11	32.4	45.8	72.6
11	Rhode Island	11	32.4	45.8	72.6
12	Arizona	9	26.5	37.5	59.4
12	New Hampshire	9	26.5	37.5	59.4
12	North Carolina	9	26.5	37.5	59.4
13	California	7	20.6	29.2	46.2

Table X: State Rankings (Maximum Possible Points = 34)					
Rank	State	Total Points	% of Max. Pts.	% of Highest Score Earned	% of Mean Score Earned
13	Connecticut	7	20.6	29.2	46.2
13	Delaware	7	20.6	29.2	46.2
13	Oklahoma	7	20.6	29.2	46.2

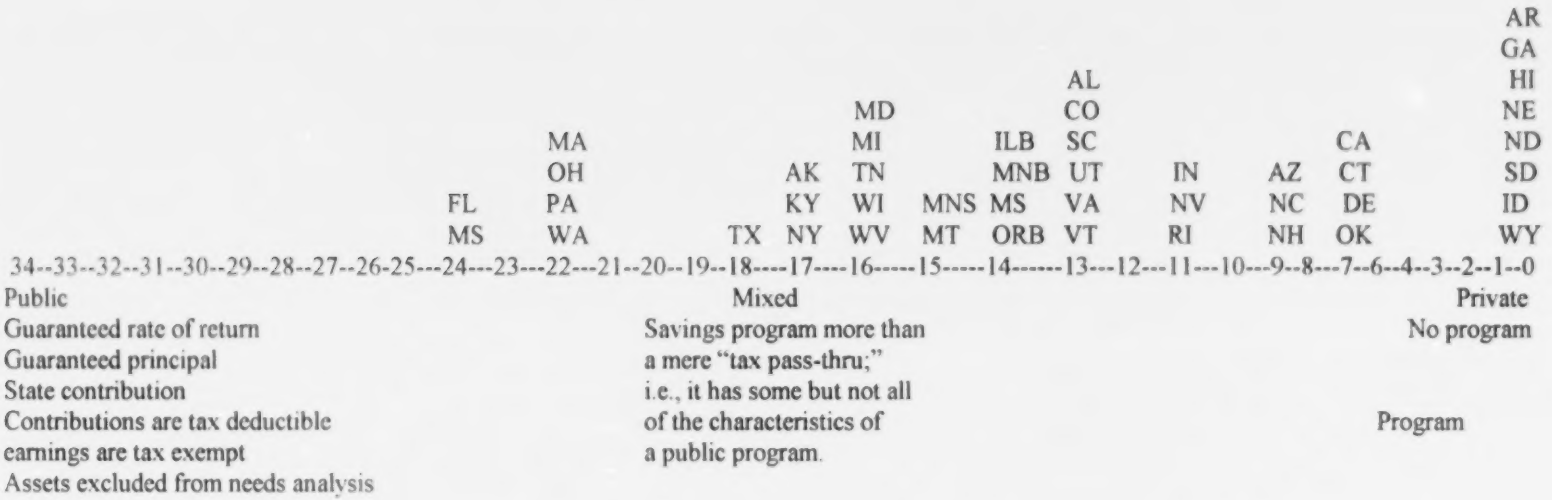
Source: Author.

The number of tied scores suggests either a Lake Wobegon-like world in which all are equal or the power of the Internal Revenue Code's Section 529 as a model for all programs. In fact, as a perusal of either Appendices A or B reveals, there is a striking similarity among state plans. Nonetheless, Table X suggest several things. First, prepaid tuition plans are significantly more public than college savings trusts, as indicated by the fact that seven of the first ten programs ranked are prepaids. The lowest ranked prepaid program is Nevada's, which is not guaranteed by the state, has no state contribution, does not exclude account assets from state needs analysis and only defers account earnings from taxation. The highest rated savings plan (non-bond) is Iowa's, which is not guaranteed by the state, but does have a provision for a state contribution, excludes account assets from state needs analysis and both deducts contributions and exempts earnings from state income taxes (see Appendix A). Which leads to the second observation. Regardless of program type, state tax and financial aid treatment reveal whether or not these programs suggest an increased or renewed commitment to sharing the burden of the ***public-versus-private responsibility*** issue, whether or not they are 'in addition to' or 'instead of' existing state programs, or whether they are simply state constructs to enable residents to access federal tax benefits. Many of the lower ranked programs (e.g., Delaware, California, New Hampshire, etc.) fit that profile. When participation fees are factored in, they, in fact, offer no

state benefit at all except as a conduit to federal tax relief. This results in a state like Mississippi, which guarantees its program with its full faith and credit and both deducts contributions and exempts earnings from taxation having a public posture more than three times that of California, Connecticut, Delaware and Oklahoma. An anomaly of the rankings is North Carolina low rank, whose College Vision Fund's combination of a savings, loan and extended repayment plan does not neatly fit the paradigm. North Carolina, however, does not guarantee their program, does not provide a state contribution and includes account assets in state needs analysis.

Given the vagaries of assigning weights, ranking of individual states is not as illuminating as examining the national scene in its entirety. When the states are arranged across a ***public-versus-private responsibility continuum*** (see Figure III) according to the total points they earned on the aggregate scale of 0-34, a picture of a broad national movement away from a public position and toward an increasingly private position relative to the ***public-versus-private responsibility*** issue emerges. No state's program assumes a purely public posture, which would entail guaranteeing both principal and rate of return with the state's full faith and credit, making a state contribution to individual account assets and/or sponsoring a scholarship program, deducting program contributions from taxable income, exempting program earnings from state income taxation and excluding account assets from state needs analysis. There are, however, states with a purely private posture (at least relative to state-sponsored, tax-advantaged college savings plans), i.e., they do not have one. Most states are in the middle tending toward private. The entire

Figure III.
State-Sponsored, Tax-Advantaged College Savings Plans: A Continuum of Their Relative 'Publicness' re the Public-versus-Private Responsibility to Pay for Higher Education Issue: The States Arrayed



Note: Maine and the District of Columbia plan to introduce prepaid plans in 1999. New Mexico and Kansas are currently concluding feasibility studies. Oregon's prepaid plan was rejected by voters in November, 1998. Georgia's HOPE scholarship program does not fit the "tax advantaged" paradigm.

Source: The Author

distribution is skewed to the private end of the continuum.

Most of the growth in state plans since 1996's Small Business and Jobs Protection Act has been in college savings plan trusts designed to afford state residents access to federal tax benefits. Early plans were almost all prepaid tuition programs of one sort or the other. Prepaid plans imply more risk to the state. For that reason, in the mid-1990s they were eschewed in favor of savings trusts. Recently, however, as the implications of such plans for the ***public-versus-private responsibility*** issue have come to be better understood, there has been a resurgence of prepaid tuition plans with a decidedly public cast to them, e.g., Illinois and Washington.

After analyzing both the rhetoric and the behavior of state's sponsoring tax-advantaged college savings plans, what can be concluded about the contemporary understanding of the ***public-versus-private responsibility*** issue? For one thing, it is clear that they mean exactly what the states, taken as a whole, say they mean. First, access and equity is now at least second in priority to solving the middle-class affordability issue. Whether real or perceived, resolution of that challenge is now at the forefront of policy initiatives at both the federal and the state level. One could characterize the entire state-sponsored, tax-advantaged college savings phenomenon as a behavioral response to the political clamor for a solution to the middle-class affordability issue.

Secondly, as the rhetorical analysis disclosed, the state's are collectively saying that the ***public-versus-private responsibility*** issue is a shared burden, but the burden falls most heavily on parents and students. And, lastly, in one of this study's most interesting discoveries, the state's are saying that burden should fall most heavily upon parents. The

endless exhortations to save in order to secure one's children's future has a decidedly anti-generational burden shifting tenor to it. Although there is a nascent literature on generational burden shifting (see McPherson, 1986; Flint, 1994; Rhodes, 1996; Krefetz, 1996; and Miller, 1997), it was not one of the issues this study examined. The interrelationship between the growth of state-sponsored, tax-advantaged college savings plans, the reassertion of the primacy of parental responsibility for paying for their children's higher education and the evolving discussion about intergenerational burden shifting merits further study.

CODA

Everything, the deconstructionists tell us, is point-of-view. The English literary critic William Empson's Seven Types of Ambiguity (originally published, 1930; reprinted, 1969), attempted to catalog the different ways in which a word or an image effloresces into multiple connotations and layers of meaning. Something similar needs to be done with the notion of 'publicness' in higher education finance, for 'publicness' is clearly in the eye of the beholder. This study gauged the contemporary phenomenon of state-sponsored, tax-advantaged college savings plans's impact on current understanding of the ***public-versus-private responsibility*** to pay for higher education. Its underlying assumption was that a 'public' position maximized the use of the public purse in order to optimize equitable access for all of a state's citizens to higher education. As a result, it concluded that a unit-based, prepaid tuition program demonstrated the greatest 'publicness' and, therefore, the greatest good.

Other observers, however, might have other definitions of optimal 'publicness'. For example, in discussing the investment worthiness of such plans with a stockbroker and investment counselor, prepaid plans were clearly sub-optimal because their rate of return was limited to the increase in public institution tuition and fees (Del Caryl, Advest, Inc., personal communication, January 26, 1999). Kiplinger's Personal Finance Magazine endorses that observation when it rates Iowa and New York's college savings plans as the best in the country (Davis, 1999). Iowa is rated high because it invests participants's funds in Vanguard LifeStrategy Portfolios (a series of equity funds). New York scores high because of its generous tax allowances and financial aid exclusions. Thus, to investors, maximum 'publicness' and the greatest public good result from a program which maximizes individual investor return regardless of the program's impact on access and equity.

A unit-based prepaid tuition plan might be characterized as a progressive state-sponsored, tax-advantaged college savings plan; i.e., it uses the public purse to optimize equitable access to higher education for all of a state's residents. Another plan might have very 'public' characteristics, yet have a regressive impact. It might forgive taxes, exclude from needs analysis account assets, provide for a state contribution and be guaranteed in some way by the state, but because of purchase requirements, withdrawal penalties, etc., its benefits flow disproportionately to the affluent. As a result of foregone tax revenues and the increased financial aid eligibility of the previously ineligible, this program's benefits, which are indirectly subsidized by all of a state's taxpayers, flow to those who need them least.

Further complicating the issue of regressivity versus progressivity, one could argue that regardless of the relative 'publicness' of a state's plan, the state itself by creating such a plan is indicating an acceptance of the public responsibility to at least share in the burden of paying for higher education. This is true whether a state has a preexisting, need-based program of student assistance, as, for example, in New York and Pennsylvania, or has a minimal program, as in Louisiana. In either case, by creating an entirely new program of student assistance, albeit with a large portion of privateness inherent in the program's very nature, the state's overall profile relative to the ***public-versus-private responsibility*** issue moves in the direction greater publicness.

So, given different definitions of the public good and state-sponsored, tax-advantaged college savings plans's potential for regressivity, what can concluded about their impact on the ***public-versus-private responsibility*** issue? First, such plans, because they require private investment to access state benefits, are inherently 'private'. Therefore, in regard to any particular state program or the collective national landscape of all programs, the question is one of the plan's relative 'publicness', whether defined as maximizing postsecondary enrollment or investor earnings. Secondly, the national context, whether from the vantage point of the discourse surrounding such programs or from the perspective of their operational behavior, clearly indicates that solving the puzzle of middle-class affordability has replaced the issues of access and equity as the most important student-centered, higher education funding priority. Thirdly, these programs's rhetoric and behavior clearly reaffirm that the burden of funding higher education is shared between taxpayer, parents, students and donors. Within that shared burden, state-

sponsored, tax-advantaged college savings plans assert that the states have diminished resources to increase student funding, either because of reduced state resources and/or other demands on the state's exchequer. Lastly, as a result, these plans's rhetoric clearly posit, within the context of the states's pre-existing higher education systems, that the primary responsibility for additional funding lies with parents. In fact, these plans clearly signal an anti-generational burden shifting tone in their attacks on rising levels of student indebtedness and their exhortations for parents to assume greater responsibility for their children's education.

Appendix A: Taxonomy of State Programs

Appendix A: State College Savings Program Taxonomy Type:1= Prepaid 2= Savings Trust 3= College Bonds								
State	**Type**	**Date Begun**	**Rate of Return**	**State Guarantee**	**State Contrib.**	**Tax Status**	**Financial Aid Impact**	**Fund Manager**
Alabama	1	1989	Full In-state tuition & fees at Ala. pb insts	No	None	Earnings are state tax exempt	Assets included for needs analysis	Wallace-Folsom Fund
Alaska	1	1997	Guarantees tuition at U of Alaska	No	Yes	No state income tax	Not Specified	Advance College Tuition Fund
Arizona	2	1998	Not stated	No	No	Earnings are state tax exempt	Assets included for needs analysis	To be determined
Arkansas (A)	3	1990	Not stated	Yes	None	Earnings are state tax exempt	Up to $5000 annually excluded from state needs analysis	Arkansas Development Finance Authority
Arkansas (B): Legislation has passed to implement a prepaid plan in either mid-1999 or early 2000.								
California	2	1998	Not stated	No	None	Earnings tax deferred/ taxed at beneficiary's rate	Not Specified	California Student Aid Commission
Colorado	1	1996	Avg. Resident Tuition at 4-Year CO pb institutions	No	None	Earnings are state tax exempt	Not Specified	Colorado Student Obligation Bond Authority
Connecticut	2	1997	Not stated	No	None	Earnings tax deferred/ taxed at beneficiary's rate	Not Specified	Collegiate Capital Group

State	Type	Date Begun	Rate of Return	State Guarantee	State Contrib.	Tax Status	Financial Aid Impact	Fund Manager
Delaware	2	1998	Not stated	No	None	Earnings tax deferred/ taxed at beneficiary's rate	Not Specified	Fidelity Investments
Florida	1	1988	Greater of 7.5% or in-state tuition & fees rate of increase	Yes	Yes	No state income tax	Excluded from state needs analysis	Florida Prepaid College Board
Georgia: No Program. Georgia sponsors HOPE: Help Outstanding Pupils Educationally, a state sponsored scholarship program.								
Hawaii: No Program. Prepaid program defeated in legislature; currently studying feasibility								
Idaho: No Program. Prepaid legislation introduced twice; died each time for lack of sponsorship support.								
Illinois (A)	3	1987	Not stated	Yes	No	Earnings are state tax exempt	Up to $25,000 of bond assets are excluded from needs analysis	State Treasurer's Office
Illinois (B)	1	1998	Guarantees in-state tuition & fees at Illinois public institutions	Yes	No	Earnings are state tax exempt	Excluded from state needs analysis	Illinois Student Aid Commission
Indiana	2	1996	Not stated	No	No	Earnings tax deferred/ taxed at beneficiary's rate	Excluded from state needs analysis	First Chicago NBD Investment Management Co.

State	Type	Date Begun	Rate of Return	State Guarantee	State Contrib.	Tax Status	Financial Aid Impact	Fund Manager
Iowa	2	1998	None	No	Yes	Contributions deductible from taxable income; Earnings are state tax exempt.	Excluded from state needs analysis	State Treasurer's Office
Kansas: No Program. Senate Bill 402 authorizes State Treasurer to study feasibility; report due in January, 1999.								
Kentucky	2	1988	4% or more per annum	No	None	Earnings exempt from state income and ad valorem taxes	Excluded from state needs analysis	Kentucky Higher Education Assistance Agency
Louisiana	2	1995	6% actuarially assumed	Yes; Legislative commitment	Yes	Earnings are state tax exempt	Excluded from state needs analysis	Louisiana Tuition Trust Authority
Maine: Establishing a Prepaid Tuition Program in 1999.								
Maryland	1	1997	Guarantees in-state tuition & fees at Maryland public institutions	No	No	Up to $2500 per year in contributions deductible from taxable income; Earnings state tax exempt.	Not specified	Maryland Higher Education Educational Investment Board

State	Type	Date Begun	Rate of Return	State Guarantee	State Contrib.	Tax Status	Financial Aid Impact	Fund Manager
Massachusetts (A)	1	1995	Guaranteed to match rate of increase in tuition & fees at participating institutions	Yes	No	Earnings are state tax exempt	Not specified	Massachusetts Educational Finance Authority
Massachusetts (B)	2	1998	Not stated	No	No	To be determined	To be determined	Massachusetts Educational Finance Authority
Michigan	1	1987	Guarantees to pay Michigan public institutions's tuition & fees	No	No	Contributions deductible from taxable income; Earnings are state tax deferred.	Not specified	Michigan Education Trust
Minnesota (B)	3	1997	Not stated	Yes	No	Earnings are state tax exempt	Up to $25000 excluded from state needs analysis	Minnesota Higher Education Services Office
Minnesota (C)	2	1997	Not stated	No	Yes	Earnings tax deferred/ taxed at beneficiary's rate	Up to $25000 excluded from state needs analysis	Minnesota Higher Education Services Office

State	Type	Date Begun	Rate of Return	State Guarantee	State Contrib.	Tax Status	Financial Aid Impact	Fund Manager
Mississippi	1	1996	Guarantees tuition & fees at Mississippi public institutions	Yes	No	Contributions deductible from taxable income; Earnings are state tax exempt.	Not specified	Mississippi Prepaid Affordable College Tuition Board
Missouri	2	1998	Not stated	No	No	Contributions deductible from taxable income; Earnings are state tax exempt.	Not specified	Missouri Student Assistance Resource Services
Montana	2	1997	Guarantees a minimum of 4% or the annual % increase in college costs as measured by the Independent College 500 Index	Yes, (through the FDIC).	No	Up to $3000 ($6000 if married & filing jointly) of contributions are deductible from state taxable income	Account assets included in state needs analysis	College Savings Bank of New Jersey
Nebraska: No Program. Attempted to establish a Prepaid Savings Trust but bill died in the legislature for lack of support.								
Nevada	1	1998	Guarantees tuition & fees at Nevada public institutions	No	No	Earnings tax deferred/ taxed at beneficiary's rate	Not specified	Nevada Higher Education Trust Fund

State	Type	Date Begun	Rate of Return	State Guarantee	State Contrib.	Tax Status	Financial Aid Impact	Fund Manager
New Hampshire	2	1998	Not stated	No	No	Earnings exempt from New Hampshire dividends & interest tax	Included as a parental asset for state needs analysis	Fidelity Investments
New Jersey	2	1997	Not stated	Yes; Legislative commitme nt to fund obligations.	Yes	Earnings are state tax exempt	Up to $25000 excluded from state needs analysis	New Jersey Higher Education Assistance Agency
New Mexico: Currently studying the feasibility of implementing a Prepaid Tuition Higher Education Program and a College Agreement/College Savings Plan in 1999.								Investment
New York	2	1998	Investment rate earned by TIAA on its pooled funds	No	No	Up to $5000 ($10,000 if married & filing jointly) deductible from taxable income; earnings are state tax exempt	Excluded from state needs analysis	TIAA in consultation with New York Higher Education Services Corporation
North Carolina	2	1996	Rate earned by aggregate North Carolina state investments	No	No	Earnings are state tax exempt	Included as a parental asset for state needs analysis	North Carolina State Treasurer's Office
North Dakota: No Program. Bills have twice been introduced before the legislature and died for lack of support.								

State	Type	Date Begun	Rate of Return	State Guarantee	State Contrib.	Tax Status	Financial Aid Impact	Fund Manager
Ohio	1	1989	Guarantees to meet the weighted average of Ohio 4-year institutions rate of tuition & fees increase	Yes	No	Earnings are state tax exempt	Not specified	Ohio Tuition Trust Authority
Oklahoma	2	1999	Not stated	No	No	Earnings tax deferred/ taxed at beneficiary's rate	Included as a parental asset for state needs analysis	Oklahoma State Regents for Higher Education
Oregon (A) This plan was rejected by Oregon voters in November, 1998.	1	2000	Guarantees tuition & fees at Oregon public institutions	Yes	No	Earnings are state tax exempt	Excluded from state needs analysis	Trust Fund Board
Oregon (B)	3	1988	Not stated	Yes	No	Earnings are state & federal tax exempt	Included as an asset for state needs analysis	State Treasurer's Office
Pennsylvania	1	1992	Guarantees tuition & fees at Pennsylvania public institutions	No	No	Earnings are exempt from state & local income taxes & state personal property tax	Excluded from state needs analysis	State Treasurer's Office
Rhode Island	2	1997	Not stated	No	No	Earnings tax deferred/ taxed at beneficiary's rate	Excluded from state & any in-state institution's needs analysis	Rhode Island Higher Education Assistance Authority

State	Type	Date Begun	Rate of Return	State Guarantee	State Contrib.	Tax Status	Financial Aid Impact	Fund Manager
South Carolina	1	1998	Guarantees to match weighted average of South Carolina public institution's tuition & fees	No	No	Earnings are state tax exempt	Not specified	State Board of Budget and Control
South Dakota: No Program.								
Tennessee	1	1996	Guarantees to match weighted average of Tennessee public institution's tuition & fees	No	No	Earnings are exempt from state, county & municipal taxes	Not specified	State Treasurer
Texas	1	1995	Guarantees to pay tuition & fees per contract purchased category	Yes; Legislative commitment to fund obligations.	Yes	Earnings tax deferred/ taxed at beneficiary's rate	Not specified	State Comptroller
Utah	2	1996	Based on past history, implies a minimum of 5.5 %	No	No	Earnings are state tax exempt	Not specified	State Treasurer
Vermont	2	1998	Indexed to 91 day US Treasury Bills	No	No	Earnings are state tax exempt	Included as parental asset in state needs analysis	Vermont Student Assistance Commission

State	Type	Date Begun	Rate of Return	State Guarantee	State Contrib.	Tax Status	Financial Aid Impact	Fund Manager
Virginia	1	1994	Minimum 4%; guarantees to pay tuition & fees per contract type purchased	No	No	Earnings are state tax exempt	Not specified	Higher Education Trust Fund Board
Washington	1	1998	Guarantees to meet rate of increase of Washington public institutions's tuition & fees	Yes	No	No state income tax	Not specified	State Treasurer
West Virginia	1	1997	Guarantees to pay tuition & fees per contract purchased category	No	No	Contributions deductible from taxable income; Earnings are tax deferred & taxed at beneficiary's rate	Not specified	State Treasurer
Wisconsin	1	1995	Guarantees to match rate of increase in University of Wisconsin tuition & fees	No	No	Earnings are state tax exempt	Not specified	State Investment Board
Wyoming: No program. Wyoming had a prepaid program in the late '80s & early '90s, but it was suspended in 1995.								
District of Columbia: Establishing a prepaid college savings program, the National Capital College Savings Trust in 1999.								

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